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1994/08/00

EVENT SCENARIO

Event: Signing Ceremony for the McDonnell Douglas Trunk Aircraft Program

Date: Monday, August 29, 1994

Time: 6:30 – 7:00 p.m.

Location: China World Hotel, Huang Shan "A" Room (Basement B-1)

Participants: Secretary Brown
Ambassador Stapleton Roy
Robert ("Bob") Hood, President, Douglas Aircraft Company
Herbert ("Herb") Lanese, Chief Financial Officer, McDonnell Douglas Corporation
John Van Gels, Vice President-General Manager, Production Programs, Douglas Aircraft Company
Walter Orlowski, VP-GM, Marketing & Business Development, Douglas Aircraft Company
Robert ("Bob") Hitt, Program Manager-China Programs, Douglas Aircraft Company
John Bruns, Douglas Aircraft Company, Beijing Office
Tony Wong, Douglas Aircraft Company, Beijing Office
CHEN Guang Yi, Director General, Civil Aviation Administration of China ("CAAC")
SHEN, Yuan Kang, Vice Minister, CAAC
WU Yi, Minister, Ministry of Foreign Trade & Economic Corp. ("MOFTEC")
ZHENG Si Lin, Vice Minister, MOFTEC
WANG Ang, Executive Vice President, Aviation Industries of China ("AVIC")
YE Yigan, President, China Aero Supply Corp. ("CASC")
LIU Guomin, President, China National Aero-Technology Import & Export Corp. ("CATIC")
TANG Xiao Ping, Executive Vice President, CATIC
Others TBD (State Planning Commission, Bank of China, Ministry of Finance, etc.)

Host: Bob Hood, President, Douglas Aircraft Company

Objective: To participate in the signing of the amendment to the McDonnell Douglas Trunk Aircraft program with China. This amendment moves production of the first 20 aircraft assembled in the Trunk Aircraft Program from China to McDonnell Douglas' facility in Long Beach, CA. The Trunk Aircraft Program is for a total of 40 aircraft, with options for an additional 130 aircraft. Total value of the Trunk Aircraft Program – all 170 aircraft – is \$7 billion.

Overview: The 20 aircraft produced in California are worth \$800 million, and will support approximately 16,000 U.S. aerospace industry jobs. Although current plans are for the outstanding aircraft to be assembled in China from "kits" shipped from the United States, these aircraft also represent a large percentage of American content and American high technology aerospace jobs.

Press Availability: Yes

Photo Opportunity: Yes

Gift: TBD

McDonnell Douglas has proposed the following agenda:

5:00 – 6:00 p.m. Press Conference for Local Press (in Chinese)

6:00 – 6:30 p.m. Break (refreshments served)

6:15 – 6:30 p.m. Private Meeting between Secretary Brown, Robert Hood, Madame Wu, and AVIC Vice President Wang (schedule permitting)

6:30 – 7:00 p.m. Signing Ceremony – Trunkliner Agreement

1. Remarks by AVIC VP Wang
2. Remarks by CAAC Dir. Gen. Chen
3. Remarks by DAC President Bob Hood
4. Remarks by Secretary Brown
5. Remarks by Minister Wu
6. Signing of Trunk Aircraft Contract Amendment (Hood/Wang)
7. Signing of Direct Purchase Agreement (Hood/Ye)
8. Photo Opportunity
9. Secretary Brown, Minister Wu Depart

McDonnell Douglas is assuming remarks of 2-4 minutes following with equal translation time.

McDonnell Douglas Press Office will invite Foreign and local press to cover the event. Audio-visual equipment will be set up.

BACKGROUND

Overview

McDonnell Douglas was selected by the Chinese government as China's partner for the development of a 150 passenger seat aircraft for the country's trunk line system. The aircraft in the program are the MD-80 and MD-90. All aircraft in the program will be purchased and operated by Chinese airlines. The current agreement call for 40 aircraft with deliveries to Chinese airlines beginning in 1997. There are options in the contract allowing for an additional 130 aircraft by the end of the decade. This contract potentially is worth \$7 billion if all 170 aircraft are delivered.

This is a follow-on agreement to the 35 MD-82 co-production agreement between McDonnell Douglas and China, although it differs significantly from that agreement. In the previous agreement, China performed final assembly only from parts and assemblies fabricated by McDonnell Douglas and shipped to Shanghai in "kits." Under the Trunk Aircraft Program, an increasing amount of the airframe structure will be fabricated and assembled in China from raw material kits provided by McDonnell Douglas.

The amendment which is to be signed during Secretary Brown's trip to Beijing, will modify the agreement by making the first 20 aircraft (a mixture of MD-80s and MD-90s) Long Beach, California produced aircraft rather than China-built aircraft. This restructuring reflects Chinese airlines' desires to acquire the latest technology MD-90 aircraft earlier (via direct purchase), and simplifies the co-production program by focusing on one model rather than two. The next 20 aircraft will be produced in Shanghai. Total value of the 40 aircraft program exceeds \$1.2 billion.

Two documents will be signed: 1) the trunk Aircraft Contract Amendment which will be signed by Douglas Aircraft Company President Robert Hood and Aviation Industries of China Vice President Wang Ang on behalf of AVIC's President Zhu Yu Li; and 2) a Letter of Intent to Purchase 20 MD-80/MD-90 aircraft from Long Beach, California signed by Mr. Hood and China Aero Supply Corporation President Ye Yigan.

TALKING POINTS – TRUNK AIRCRAFT PROGRAM

- o IT IS A PLEASURE FOR ME TO PARTICIPATE IN THIS CEREMONY
COMMEMORATING THE SIGNING OF THE TRUNK AIRCRAFT PROGRAM
BETWEEN CHINA AND MCDONNELL DOUGLAS. IT IS A HISTORIC EVENT
AND I AM PLEASED TO BE IN SUCH DISTINGUISHED COMPANY.

- o THIS CEREMONY IS A SIGNIFICANT MILESTONE IN THE LONG,
COOPERATIVE RELATIONSHIP BETWEEN CHINA AND MCDONNELL
DOUGLAS CORPORATION, A RELATIONSHIP BEGUN IN 1975 WITH THE
PRODUCTION IN CHINA OF LANDING GEAR DOORS FOR MCDONNELL
DOUGLAS' MD-80.

- o IN 1985, CHINA AND MCDONNELL DOUGLAS SIGNED THE AGREEMENT
TO CO-PRODUCE THE MD-80 IN SHANGHAI. THIS HIGHLY SUCCESSFUL
PROGRAM HAS PRODUCED 35 AIRCRAFT. 30 OF THESE AIRCRAFT ARE
OWNED BY CHINESE AIRLINES AND FLYING IN CHINA. 5 AIRCRAFT ARE
BEING FLOWN BY TRANS WORLD AIRLINES IN THE UNITED STATES.

- o THE CLOSE ALLIANCE BETWEEN CHINA AND MCDONNELL DOUGLAS IS A TESTAMENT TO CHINESE AND AMERICAN COOPERATION IN GENERAL AND TO MCDONNELL DOUGLAS AND THE CHINESE AVIATION INDUSTRY IN PARTICULAR.

- o IN FACT. THIS COOPERATIVE EFFORT OFTEN IS CITED AS AN EXAMPLE OF THE SUCCESSFUL RELATIONSHIP BETWEEN CHINA AND THE UNITED STATES IN TERMS OF TRADE AND ECONOMIC COOPERATION.

- o WITH THE SIGNING OF THIS AMENDMENT TO THE TRUNK AIRCRAFT PROGRAM, CHINESE AIRLINES WILL BE ABLE TO TAKE DELIVERY OF THE LATEST TECHNOLOGY AMERICAN AIRCRAFT EARLIER THAN IF ALL THE AIRCRAFT WERE PRODUCED IN CHINA. THE FIRST 20 AIRCRAFT – OF A FIRM BEGINNING ORDER OF 40 AIRCRAFT – WILL COME FROM THE DOUGLAS AIRCRAFT FACTORY IN LONG BEACH, CALIFORNIA.

- o THE OTHER 20 TRUNK AIRCRAFT WILL BE PRODUCED IN CHINA AT SHANGHAI. THIS IS A WIN-WIN PROPOSITION FOR BOTH SIDES, ESPECIALLY SINCE THESE AIRCRAFT WILL PROVIDE IMPORTANT JOBS FOR ALL CONCERNED.

ONLY IF ASKED ABOUT MCDONNELL DOUGLAS' APPLICATION FOR AN EXPORT LICENSE FOR MILLING MACHINERY WHICH IT HAS SOLD TO CHINA --

- o I AM AWARE THAT MCDONNELL DOUGLAS HAS APPLIED FOR EXPORT LICENSES.
- o THE UNITED STATES GOVERNMENT HAS A RIGOROUS SYSTEM IN PLACE TO REVIEW EXPORT LICENSE REQUESTS. MCDONNELL DOUGLAS' APPLICATIONS WERE APPROVED AFTER FULL CONSULTATION WITH ALL INVOLVED AGENCIES.

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Sue Eckert, Assistant Secretary, BXA, 8/23/94